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MCC FOR F REID, D NASSIRY AND E BURKE
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SUBJECT: MALDIVES: INFORMATION FOR MCC NOVEMBER 8 MEETING

¶1. (U) SUMMARY: As a candidate country that has met the Millennium Challenge Corporation,s (MCC,s) threshold requirements, post recommends that Maldives be selected for eligibility by the MCC Board. Maldives, a small but ambitious country with an educated population, seeks to diversify its economy. Further, Maldives - a nearly one hundred percent Islamic country - is moving toward democracy and is pro-US. A successful compact could become a model for how to promote progress in democratization and good governance in a moderate Islamic nation, thereby supporting one of the highest-priority goals of US foreign policy. End Summary.

FIRST YEAR OF CANDIDACY: MANY SCORES HAVE IMPROVED

¶2. (U) Maldives has recorded positive trends in most of the MCC indicators in FY 07, demonstrating the government,s continued commitment to improving in matters measured in the MCC categories of ruling justly, investing in people and promoting economic freedom. Per the MCC Report Card, following are the specific areas in which Maldives has improved:

-- Ruling Justly: political rights, civil liberties (although both were not yet within passing score), and rule of law (with a significant score increase, moving from a negative 0.24 (fail) to a passing score of 0.71).

-- Investing in People: immunization rates, girls, primary education.

-- Economic Freedom: regulatory quality, cost of starting a business, and inflation.

INCOME DISPARITY AND VULNERABILITY

¶3. (U) Of the Maldives, 1,191 islands, only 200 are inhabited, and 87 are resort islands. The population of 300,000 is scattered throughout the country, with the greatest concentration on the capital island, Male.

¶4. (U) Despite maintaining constantly high GDP growth rates and boasting the highest per capita GDP in South Asia, the country remains socially, economically and politically

vulnerable. Social vulnerability in Maldives comes about because of the small size and wide dispersion of the population across many islands. Those islands farthest from the capital city remain underdeveloped. Income disparity is significant, and a high level of poverty prevails in some of the outer atolls. Economic vulnerability stems from the heavy dependence on tourism and fishing, industries which are subject to outside shocks. Environmental vulnerability is created by the fragile ecosystem. In addition, the UNDP reports that the 2004 tsunami affected Maldives more than any other South Asian country, disrupting 60 percent of the country,s GDP.

¶5. (SBU) Politically, Maldives is at a critical juncture as it pursues political reform and moves from being a strongly executive-led state toward greater democracy. During his introductory calls on the President and Senior Ministers, the Ambassador underscored the importance of sustaining progress toward democratization. The success of democratic reforms will depend on success in bringing greater economic and social opportunities to marginalized sections of society.

AN AMBITIOUS GOVERNMENT WHICH WOULD LIKE TO PARTNER WITH MCC

¶6. (U) The government is committed to poverty reduction, seeking to reach the poorest populations in the outer islands and provide them with basic social and physical infrastructure. Many reforms are already underway, including the development of pro-business laws to improve the business climate. Maldives ranks 53 out of 175 countries in World Bank,s ease of doing business ranking for 2007; well ahead of all other South Asian peers.

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¶7. (U) While many international hotel operators are already present in Maldives, the government hopes to further open the economy to direct foreign investment. It is preparing the country,s first Poverty Reduction Strategy Paper (PRSP) to be released by the end of 2006; the PRSP will build on the government,s Seventh National Development Plan. On the eve of the new millennium, the government released a Vision 20/20 statement spelling out a series of long-term aspirations for Maldives, such as:

- Becoming a top-ranking middle-income country
- Achieving gender equality
- Establishing a minimum of 10 years of formal schooling and good tertiary education
- Ensuring access to quality medical care and health insurance
- Promoting the conditions for rapid economic growth with Maldives serving as a hub of regional free trade.

Maldives is slowly but consistently working toward meeting these goals.

¶8. (U) Maldives has received economic assistance from development agencies and has experience in working with donor agencies. This base of experience will be helpful in the successful design and implementation of an MCC Compact.

RESOURCE SYNERGIES FOR MCC BETWEEN SRI LANKA AND MALDIVES

¶9. (U) MCC could complement its activities in Sri Lanka with a program in Maldives. MCC visits to Maldives do not need to begin in the US. Instead, consultations could be scheduled to coordinate with visits to both Sri Lanka and Maldives (just a one hour flight away from Sri Lanka). Most government office visits could be conducted on one island - Male, - located just 10 minutes away from the international airport. If a visitor,s available time is extremely short, many important meetings could even be conducted within one day, with flight schedules arranged for an early morning arrival and an evening departure, returning to the US via London or various other gateways in the Middle-East, Japan,

Singapore or Europe.

STRATEGIC IMPORTANCE OF THIS PRO-US MUSLIM COUNTRY

¶10. (SBU) Maldives has been, and currently remains, a moderate, pro-Western Muslim country. Maldives could be strategic for MCC (and the US in general) as it maintains a pro-US stance and is moving toward increased democratic processes. However, lack of economic opportunity and isolation threaten to fuel religious extremism in the country (currently being imported by its migrant workers and university students), especially in far-flung atolls. It is in the US interest to foster greater friendship with this moderate Muslim nation through economic assistance that would undermine extremist forces by providing viable alternatives.

SIZE COULD STRONGLY LEVERAGE MCC INVESTMENT

¶11. (SBU) The small size of its population and the earnest desire of its generally capable government to develop Maldives could enable MCC to leverage a Compact into significant economic advances. A Compact with Maldives is consistent with MCC objectives and would promote development and democracy in an Islamic nation.

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